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SUBJECT: China's Economic Presence in Egypt

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11. (SBU) Key points:

-Despite recent growth in bilateral trade and pledges to increase investment, China's economic relations with Egypt remain fairly modest.

-Chinese investment in Egypt is not focused solely on profits, but rather on building and maintaining a Chinese presence in Egypt and Africa.

Chinese Economic Ties with Egypt are Growing, But...

12. (SBU) On January 13, EconOffs met with Cao Jiaching, the Commercial Minister-Counselor at the Chinese Embassy in Cairo. Jiachang characterized Chinese-Egyptian economic relations as "very good," and noted that Chinese trade and investment ties with Egypt have grown steadily since 2004. Jiaching said that bilateral trade amounted to \$5.5 billion in 2009, with the balance of trade heavily skewed towards Chinese exports. He added that Chinese investment has reached \$500 million in Egypt, and said that China's goal is to double its investment to \$1 billion by the end of 2012. (NOTE: The GOE's Minister of Investment recently stated that the amount of current Chinese investment is closer to \$300 million).

13. (U) Chinese-Egyptian economic cooperation was on full display in November 2009, during the China-Africa Summit in Sharm El-Sheikh. Egyptian Prime Minister Ahmed Nazif and his Chinese counterpart signed 4 MOU's on improving trade, investment, customs, and cultural ties, and Egyptian Minister of Finance Mahmoud Mohiedden announced the opening of the first Chinese bank in Egypt (refs. A and B). The two countries also celebrated the nascent Chinese-Egyptian economic zone in Ain Sokhna, one of six special Chinese economic zones in Africa whereby land has been set aside for Chinese companies to build factories and infrastructure. Jiachang told us that the Chinese zone in Ain Sokhna does not enjoy duty-free privileges like designated free zones in Egypt, but that the Chinese government provides special incentives for companies to invest in it.

...Overall Chinese Investment is Modest

¶4. (SBU) While Chinese investment is growing, the current \$500 million invested in Egypt is much smaller than Chinese FDI in many other African countries, and represents less than 1% of Egypt's total stock of FDI. Moreover, Jiachang told us that China has not invested in Egypt's oil and gas sector, which accounts for the majority of Egypt's FDI. (Note: while no Chinese oil exploration companies are active in Egypt, Jiachang tells us that there are 5-6 Chinese oil service companies working here.) Instead, Chinese investments are concentrated in the manufacturing and service sectors.

¶5. (SBU) Jiachang noted that Chinese companies are attracted to Egypt in part because of its strong market access, low costs of doing business, and its improving investment climate (ref. C). However, he termed Egypt's legal requirement that companies employ no more than 10% foreigners a "big problem," suggesting that it keeps Chinese companies from employing enough high-skilled workers in Egypt.

Maintaining a Chinese Presence is the Goal

¶6. (SBU) Jiachang said that Egypt is not a major target of Chinese investors, but that Chinese companies are establishing a foothold in Egypt in part because the government of China is encouraging its business community to go to Africa. Egypt is not great for investment, Jiachang said, but China feels "has to do something" to maintain a presence.

Comment

¶7. (SBU) The attitude of Chinese investors towards Egypt is that of a lukewarm embrace: Companies see the potential for profit, but fears of inefficiency -- as well as the existence of more attractive developing countries in which to invest -- keep the size of overall investments in Egypt low. The modest Chinese investments in Egypt appear to be driven more by a desire for a Chinese presence in a key African market than by the attractiveness of Egypt as a destination for FDI.
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